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ABSTRACT

This document is comprised of four Center for Law and Policy articles dealing with federal child care subsidies. The first discusses the proposed welfare reauthorization that includes an increase in Child Care and Development Block Grant (CCDBG) funding and an increase in the amount states can transfer from Temporary Assistance for Needy Families (TANF) funds to CCDBG. The article then lists reasons why this increased funding and expanded transfer authority will not be useful in addressing unmet and increasing child care assistance needs. The second article provides background information on eligibility and funding for child care assistance through CCDBG, TANF, and the Social Services Block Grant (SSBG). The article notes that the vast majority of eligible children did not receive assistance in FY 2000, and asserts that needs and enrollment projections by the Department of Health and Human Services significantly overstate the extent to which states are currently meeting child care assistance needs. The article then analyzes the methodology and assumptions underlying the HHS projections. The third article examines the welfare reauthorization bill, which includes a $1 billion increase over 5 years in CCDBG funds. The article asserts that this increase in not sufficient to allow states to meet the new work requirement, to maintain their current levels of services against inflation, or to make up for decreased child care resources. The fourth article examines the Bush administration's projections of a decrease of 200,000 in the number of children receiving child care subsidies during the next 5 years, due to proposed freezes on various sources of federal child care funding. The article contends that this figure substantially understates the number of children who will no longer be served by child care subsidies because the projections are based on overly optimistic assumptions about the level of both state resources and federal TANF resources that states will devote to child care during that period. All four articles contain references in the form of footnotes. (HTH)

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Increasing the Ability to Transfer TANF to CCDF in House Welfare Bill (H.R.4) Is Still Not the Answer to Unmet Child Care Needs

By Rachel Schumacher

February 13, 2003

The House is poised to vote on a welfare reauthorization bill (H.R.4) that will not provide adequate child care funding to keep pace with inflation or meet the work requirements it contains.[1] The bill includes a $1 billion increase in federal mandatory Child Care and Development Block Grant (CCDBG) funding over five years, substantially less than what the Congressional Budget Office (CBO) estimated last year would be necessary to pay for associated child care costs and keep pace with inflation.[2] The bill also includes last year's provision to increase the amount of Temporary Assistance for Needy Families (TANF) funds states could transfer to CCDBG from 30 to 50 percent. This expanded transfer authority will *not* be useful in addressing the unmet need for child care assistance among many eligible working families or the potential demand for child care that would result from increased work requirements for the following reasons:

States are not currently limited in the amount of TANF funds they can redirect to child care because they can spend TANF directly on child care without any limitation. Therefore, increasing transferability does not make more child care funds available to states. Under current law, whether or not a state transfers TANF funds to CCDF, the state is free to spend an unlimited amount of TANF funds on child care. States have made use of this option, with direct expenditures of TANF funds on child care rising steadily over the past five years to $1.7 billion in FY 2001.[3]

It is unlikely that states will have more TANF funds freed up for use for child care over the next five years under this plan because the funding level will be frozen, TANF caseloads are rising in most states, and a significant amount of additional funding would be necessary to pay for the non-child care costs of the proposed

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[1] See Mezey, J. (2003). *The House Welfare Bill (H.R.4) Does Not Provide Enough Child Care Funding to Meet Work Requirements Without Forcing States to Restrict Access to Subsidies for Other Low-Income Families*. Washington, DC: Center for Law and Social Policy. http://www.clasp.org/DMS/Documents/1045071117.28/CC_HR_4.pdf.

[2] CBO calculated that $3.5-$4.8 billion would be needed over five years to meet the House legislation's work requirements, and $4.5-$5.5 billion to maintain the current level of child care services in states.

[3] Schumacher, R., & Rakpraja, T. (2002). *States Have Slowed Their Use of TANF Funds for Child Care in the Last Year*. Washington, DC: Center for Law and Social Policy. http://www.clasp.org/DMS/Documents/1032806810.14/2001_TANF_CC.pdf.

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welfare work provisions. In 2001, about 20 percent of TANF funds that were transferred or spent were redirected to child care.[4] At the same time, Treasury data show that state TANF spending in FY 2002 was $18.7 billion—for the second year over $2 billion more than the annual state block grants of $16.5 billion, and increasing $166 million over FY 2001 outlays.[5] Accordingly, it is hard to see how states could increase commitment of TANF funds to child care unless other TANF costs were falling. But, half of states (25) saw TANF caseload increases in the last year (September 2001-September 2002), and most states (39) reported an increase in the most recent quarter (July-September 2002).[6] And, the work provisions of the House bill would involve significant additional work program costs—CBO estimates that $4.8-$6.1 billion more would be necessary over five years. So, even if the law allowed states to transfer 100 percent of TANF funds to child care, it would most likely not result in additional child care resources becoming available to states.

State use of TANF for child care slowed between FY 2000 and FY 2001, indicating that states may already have reached the limit for the amount of TANF that may be easily redirected to child care purposes. Use of TANF funds for child care in FY 2001 was $3.65 billion, and some states actually pulled back TANF funds that they had previously transferred to CCDBG (resulting in the adjusted overall use figure of FY 2000 dropping from $3.89 to $3.77 billion).[7] The majority of states did not transfer the maximum amount possible to CCDF; only two did so in FY 2001. Although direct expenditures of TANF for child care did rise between FY 2000 and FY 2001 (from $1.46 to $1.65 billion), the increase was not enough to offset the transfer decline.

Although states initially made significant use of TANF for child care, the slowed growth in recent years shows that the stress on state budgets is already making it an unreliable source for new child care funding, and a more stable dedicated child care funding would be preferable to stabilize state subsidy systems. Many states are already considering cutting their child care subsidy programs, as they seek to close an aggregate budget gap projected to be between $70 billion and $85 billion in FY 2004.[8] Some states have pulled back use of TANF for child care, resulting in reduced access to subsidies for working families.[9] In interviews conducted before this fiscal crisis hit, many state administrators told CLASP that state commitment of TANF dollars to child care can vary on a year-to-year basis, and, along with uncertainty about future federal

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[4] Schumacher, R., & Rakpraja, T. (2002).

[5] Neuberger, Z. (2002). *Annual TANF Expenditures Remain $2 Billion Above Block Grant.* Washington, DC: Center on Budget and Policy Priorities. http://www.cbpp.org/10-30-02wel.htm. Note the $16.5 billion is the basic grant, not including Supplemental Grants or bonus funds. If including the supplemental funds for certain states, the amount of the FY 2001 awarded funds is $16.8 billion.

[6] Richer, E., Rahmanou, H., & Greenberg, M. (2002). *Welfare Caseloads Increased in Most States in Third Quarter.* Washington, DC: Center for Law and Social Policy.
http://www.clasp.org/DMS/Documents/1041288586.43/caseload_2002_Q3.pdf.

[7] Schumacher, R., & Rakpraja, T. (2002).

[8] Lav, I., & Johnson, N. (January 2003). *State Budget Deficits for FY 2004 are Huge and Growing.* Washington, DC: Center on Budget and Policy Priorities.

[9] Parrott, S., Goldberg, H., & Fremstad, S. (2003). *Recycling an Unwise Proposal: State Concerns and New State Fiscal Realities Ignored in House Republican Welfare Bill.* Washington, DC: Center on Budget and Policy Priorities. http://www.cbpp.org/2-7-03tanf.pdf

TANF funding levels, this can make it difficult to conduct long-run planning of state child care policy.[10] That situation has clearly worsened under current conditions.

In summary, allowing increased transferability from TANF to CCDF will not increase the amount of funding available to states to use for child care assistance for low-income families, and it may actually contribute to further destabilization of state child care subsidy programs. CLASP recommends that a more appropriate means of increasing the amount of child care funding would be to increase mandatory CCDBG funding levels significantly to address the current unmet needs of many low-income working families, improve the quality of child care, and cover any potential child care costs associated with proposed changes to the welfare work requirements without reducing the amount of child care resources currently available for low-income working families and children.

[10] Schumacher, R., Greenberg, M., and Duffy, J. (2001). *The Impact of TANF Funding on State Child Care Subsidy Programs*. Washington, DC: Center for Law and Social Policy.

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The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000

Increased Child Care Funding Needed to Help More Families

Revised October 2, 2002[1]

By Jennifer Mezey, Mark Greenberg, and Rachel Schumacher

As Congress considers reauthorization of the Child Care and Development Block Grant (CCDBG) and the Temporary Assistance for Needy Families (TANF) block grant, one key question concerns the extent of unmet need: what share of eligible low-income families and children are receiving child care assistance? Based on recently released and revised data from the U.S. Department of Health and Human Services (HHS), CLASP estimates that **states served about 14 percent of federally-eligible children (approximately 1 out of 7) in FY 2000.**[2]

However, this spring, HHS released an analysis stating that:

- 30 percent of children whose families meet *state* CCDBG eligibility requirements will receive child care subsidies in FY 2003; and
- 47 percent of children in families with income below the 1999 poverty threshold for a family of three and who are eligible under state CCDBG eligibility rules will receive child care subsidies in FY 2003.

These projections significantly overstate the extent to which states are currently meeting the child care assistance needs of low-income families. A more informative measure comes from comparing the actual numbers of children currently receiving child care assistance to the number of children currently eligible for such assistance under federal law:

- According to recently revised and released HHS data, approximately 2.25 million children received child care funded by CCDBG, TANF, and the Social Services

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[1] This analysis was released on June 4, 2002, using a count of the number of children served with CCDBG-funded subsidies in FY 2000 released by U.S. Department of Health and Human Services (HHS) in its FY 2003 Annual Performance Report and an HHS estimate of the number of children served with directly spent TANF and SSBG funds released this spring. At the end of August, HHS posted a revised FY 2000 count of the average monthly number of children served with CCDBG-funded subsidies that year. This document has been updated to reflect these adjusted figures, as well as recently released FY 2001 CCDBG expenditure data, recently analyzed TANF data and developments in the House and Senate consideration of TANF and CCDBG reauthorization.

[2] The following analysis confirms the 1 out of 7 figure that has been used extensively to demonstrate the gap between child care needs and enrollment.

Block Grant (SSBG) in FY 2000. The total is based on the 1.75 million children HHS reported were served with CCDBG-funded subsidies that year[3] and 500,000 children HHS estimated were served with TANF- or SSBG-funded subsidies.

- HHS has estimated that 15.7 million children were eligible for child care assistance under federal eligibility rules in FY 2000.

Based on these totals, 2.25 million children among 15.7 million federally-eligible children — that is, 14 percent, or about 1 out of 7 — received child care assistance from CCDBG, TANF, and SSBG in FY 2000.

The following paper:

- Provides background information on eligibility and funding for child care assistance through CCDBG, TANF, and SSBG;
- Draws from HHS data to estimate the share of eligible low-income children receiving child care assistance in FY 2000;
- Analyzes the methodology and assumptions used by HHS to estimate the FY 2003 needs and enrollment of children eligible for child care assistance under state CCDBG eligibility rules; and
- Analyzes the methodology and assumptions used by HHS to estimate the FY 2003 needs and enrollment of children eligible for child care assistance under state CCDBG eligibility rules *and* who have family income below the 1999 poverty threshold for a family of three.

Background

CCDBG Eligibility Requirements

States may provide child care services under CCDBG to children under age 13 (or under age 19 if disabled) in families in which a parent is working or in education or training, with family income not exceeding 85 percent of State Median Income (SMI). The amount of income for a family of three at 85 percent of SMI varies across the states, with an average value of approximately $38,000 in FY 2000 according to the Urban Institute.[4]

States may set their eligibility limits lower, and most do, in part due to a lack of sufficient resources to provide child care assistance to all families who are potentially eligible under federal law. As of March 2000, only three states set their eligibility limits at the federal maximum statewide. In FY 1998, according to HHS estimates, there were

[3] HHS' original count of the number of children served with CCDBG funded subsidies in FY 2000 was 1.87 million children, yielding an original total of children receiving CCDBG-, TANF-, or SSBG-funded child care assistance equal to approximately 2.4 million.

[4] Gina Adams and Monica Rohacek, "Child Care and Welfare Reform," in Isabel V. Sawhill, R. Kent Weaver, Ron Haskins, and Andrea Kane (eds.), *Welfare Reform and Beyond: The Future of the Safety Net* (Washington, DC: Brookings Institution, 2002).

almost five million children who were eligible under federal guidelines but not state guidelines, making them ineligible for child care assistance in their states. In FY 2000, HHS estimates that almost six million low-income children below 85 percent of SMI were rendered ineligible for child care assistance primarily because of low state income eligibility limits.

Child Care Funding and Enrollment Reporting

Between FYs 1997 and 2000, available federal CCDBG funding through mandatory, matching, and discretionary funds increased from $1.9 billion to $3.45 billion.[5] Due to Congress' appropriation of an additional $817 million in discretionary CCDBG funding and a scheduled increase in available mandatory matching funds, the level of available CCDBG funding rose to $4.5 billion in FY 2001. CCDBG federal and state spending (from the above federal funding sources, state maintenance of effort and matching funds, and funds transferred to CCDBG from the TANF block grant) increased by more than 50 percent between FYs 1997 and 2000, from almost $4 billion to $6.8 billion. By FY 2001, CCDBG federal and state spending had grown to $7.7 billion. While data is available on the numbers of children served between FY 1996 and FY 2000, there is no publicly available data reporting the number of children served in FY 2001; therefore, we do not yet know the effect the additional available FY 2001 funds had on the number of children served that year.

While CCDBG is the principal source of federal child care assistance to low-income families, most of the growth in federal child care funding between FYs 1997 and 2001 was attributable to states' use of TANF funds for child care. States' use of TANF for child care increased from $189 million in FY 1997 to $3.77 billion in FY 2000 (a recently revised figure reflecting states' reversal of previously reported transfers to CCDBG) but fell in FY 2001 to $3.65 billion.[6] A state may transfer up to 30 percent of its TANF funding to CCDBG, in which case the funds become subject to all CCDBG rules and are indistinguishable from other CCDBG funds. In addition, a state may directly spend TANF funds for child care subsidies; directly-spent funds are still considered TANF funds and are not subject to CCDBG data reporting or other CCDBG requirements. When TANF funds are transferred to CCDBG (which is how most TANF funds for child care have been used), the children assisted with transferred TANF funds are counted as part of the CCDBG total. In contrast, there is no federal reporting of the numbers of TANF children assisted with directly-spent TANF funds, so that figure has to

[5] The federal fiscal year (FFY) 1997 appropriation does not fully reflect the amount of discretionary funds available to states in calendar year 1997. In 1997, only $19 million of the discretionary portion of CCDBG was actually released by Congress for state use in FFY 1997, while the remaining $937 million was released to states on October 1, 1997 (the first day of FFY 1998).

[6] FY 1997 through FY 1999 TANF figures from Rachel Schumacher, Mark Greenberg, and Janellen Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs* (Washington, DC: CLASP, 2001) [hereinafter CLASP, *The Impact of TANF Funding*]; Revised FY 2000 and FY 2001 TANF figures from Rachel Schumacher and Tanya Rakpraja, *States Have Slowed Their Use of TANF for Child Care in Last Year* (Washington, DC: CLASP, 2002) [hereinafter CLASP, *States Have Slowed Their Use of TANF for Child Care in the Last Year*].

be estimated, principally by extrapolating from reported spending and determining how many children this spending could reach.

Finally, states are also able to spend SSBG dollars on child care services, but the amount of SSBG funding for child care has declined in recent years to only $165 million in FY 2000.[7] SSBG funds are often blended with other child care funding, so there is no available figure representing the number of additional children funded fully with SSBG dollars. Therefore, this figure must also be estimated by extrapolating from reported spending and determining how many children this spending could reach.

Currently, many states are experiencing dramatic budget shortfalls and some have also experienced TANF caseload increases; both of these developments could impact state child care budgets. In FY 2002, 26 states collected less budget revenue than in FY 2001. As a result, the National Conference of State Legislatures estimated that by the end of FY 2002, state budget gaps totaled $36 billion, with a projected $58 billion gap for FY 2003.[8] In addition, HHS data show that although TANF caseloads for the country are still declining, between June 2001 and June 2002, the majority of states (29) reported caseload increases.[9] There is no publicly available official data that reflect the effects of state budget crises and increasing TANF caseloads on state child care budgets. However, a recent report by the Children's Defense Fund, based on surveys of state advocates and officials, has documented that states are in fact cutting or considering cuts in their state FY 2002 and FY 2003 child care budgets; some states have already lowered or have proposed lower income eligibility rules, increased or proposed increases in parental copayments, and lowered or proposed decreases in child care provider payment rates.[10]

What is the most accurate statement of child care enrollment and need?

The most recent data publicly reported by or estimated by HHS indicate that approximately 2.25 million children received child care assistance in FY 2000 with funds from CCDBG, TANF, and SSBG. This figure includes 1.75 million children served with CCDBG-funded subsidies and 500,000 served with directly-spent TANF and SSBG.[11] The 500,000 figure for children funded with directly-spent TANF and SSBG was

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[7] *Good Start, Grow Smart: President Bush's Plan to Strengthen Early Learning* (April 2, 2002), p. 5 (providing the amount of SSBG funds that were spent on child care in FY 2000). FY 2001 SSBG figures are not yet available.

[8] National Conference of State Legislatures, *State Budget Gap Deepens to $58 Billion*, NCSL New Release, http://www.ncsl.org/programs/press/2002/pr020724a.htm.

[9] CLASP, *TANF Caseloads Declined in Most States in the Second Quarter, But Most States Saw Increases Over the Last Year: Families Hitting Time Limits May Play a Role in Declining Caseloads* (Washington, DC: CLASP, 2002), http://www.clasp.org/DMS/Documents/1033487945.66/caseload_2002_Q2.pdf.

[10] Children's Defense Fund, *Low-Income Families Bear the Burden of State Child Care Cutbacks* (Washington, DC: Children's Defense Fund, 2002) [hereinafter CDF, *Low-Income Families Bear the Burden of State Child Care Cutbacks*].

[11] The 1.75 million figure was reported in recently released FY 2000 HHS data compiled from states' ACF-800 and 801 forms.

estimated by adding together FY 2000 expenditures from these sources, approximately $1.6 billion, and dividing the sum by an average FY 2000 expenditure per child figure.[12]

HHS also estimates that approximately 15.7 million children were eligible for child care assistance under CCDBG using federal eligibility standards in the 1997 to 1999 period. This figure is based on an analysis of data from the Census Bureau's Current Population Survey (CPS) using the Urban Institute's TRIM3 model. The estimate counts children who are: under the age of 13 or disabled and up to age 19 (defined in the model as 15- to 17-year-olds receiving SSI benefits); in a family earning less then 85 percent of SMI, according to family size for the calendar year 1997; and with parents who have any earnings in the month, are looking for work, or are in education and training. The data represent a three-year average of CPS data from March 1998, 1999, and 2000 for calendar years 1997 through 1999. This figure also represents an increase of almost one million children from the last HHS analysis of this data for calendar years 1995 through 1997. In part, this growth is attributable to the increased labor force participation among low-income parents. Overall employment among all low-income single mothers with young children grew from 44 percent in 1996[13] to 59 percent in 2000[14].

At this point, FY 2000 is the most recent year for which the federal government has released child care participation numbers, and for which there is reasonably current Census data from which to compare the numbers of children receiving care with the numbers of children eligible for care. Accordingly, the estimate that emerges from the FY 2000 data — that 14 percent of federally-eligible children (or 2.25 million out of 15.7 million federally eligible children) received assistance — best reflects the gap between the number of children eligible under federal law and those actually receiving care.

While we don't yet have FY 2001 CCDBG participation figures, there is no reason to believe that the situation would have changed substantially that year. HHS data show that CCDBG (including transferred TANF dollars) and federal TANF child care expenditures increased by about $1.2 billion between FY 2000 and FY 2001. Approximately one-quarter of this increase would have been needed to enable states to maintain current child care services in light of inflation. States presumably used the majority of the remaining funds to increase the numbers of children served and for child care quality initiatives, but the additional funding would not have significantly changed

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[12] This figure is derived by first taking 85 percent of total FY 2000 CCDBG expenditures (the amount going towards direct services, as estimated by HHS) and dividing that figure by the 1.87 million children that HHS had reported in its FY 2003 Annual Performance Report to have been served in FY 2000.

[13] *Temporary Assistance for Needy Families Third Annual Report to Congress*, (August 2000), p. 72, http://www.acf.dhhs.gov/programs/opre/annual3.pdf. These figures, based on the Current Population Survey, reflect the proportion of single mothers with incomes below 200 percent of the federal poverty line and children under the age of six.

[14] *Temporary Assistance for Needy Families Fourth Annual Report to Congress*, (May 2002), p. IV-7, http://www.acf.dhhs.gov/programs/opre/ar2001/indexar.htm. These figures, based on the Current Population Survey, reflect the proportion of single mothers with incomes below 200 percent of the federal poverty line and children under the age of six.

the magnitude of unmet need.[15] For reasons discussed below, it appears that even the slight growth rate between FY 2000 and FY 2001 is unlikely to continue given current state economic and demographic conditions.

The HHS estimate that 30 percent of children who are eligible under state CCDBG eligibility rules will receive child care assistance in FY 2003 is likely overstated.

The Administration has projected that 2.7 million children will receive child care assistance in FY 2003, including 2.2 million children served with CCDBG funds and 500,000 children served using directly-spent TANF and SSBG funds.

The 2.2 million children figure is based on assuming available funds in the following amounts:

- $4.8 billion in mandatory and discretionary federal CCDBG appropriated funds — the amount of the President's budget request which provides for no CCDBG funding increase between FY 2002 and FY 2003;
- $2.2 billion in state CCDBG state match and maintenance of effort (MOE) (not including excess TANF MOE beyond reported CCDBG MOE) — the maximum amount that states would have to spend to draw down all available matching funds; and
- $2 billion in TANF transferred to CCDBG.

Once the FY 2003 expenditures are projected, they are first multiplied by 85 percent (the portion of CCDBG that funds direct services as estimated by HHS). That figure is then divided by the FY 2000 CCDBG per child expenditure figure described in the previous section adjusted for inflation to FY 2003 levels. This process yields a projection of 2.245 million children to be served with CCDBG funds in FY 2003. The 500,000 children figure is an approximation of the number of children who could be served with direct TANF and SSBG expenditures in FY 2003 using the same total calculated for FY 2000.

HHS estimates that 8.95 million children will be eligible for child care assistance under state CCDBG eligibility rules in FY 2003. This estimate was made using the Urban Institute's TRIM3 model. In addition to using state CCDBG eligibility rules relating to family income and disability status, HHS also included state rules for minimum work hour requirements, since in some states, children are not eligible for child care subsidies if the parent is not working for at least some minimum number of hours. The state rules were those effective October 1, 1999 through September 30, 2001, as

[15] The effects of inflation are calculated using the Congressional Budget Office's inflation factor of 3.7 percent (the average percentage of growth in the consumer price index and the average employment cost index between FY 2000 and FY 2001). Given that official FY 2001 SSBG figures have not yet been released, this estimate assumes that SSBG expenditures remained constant between FY 2000 and FY 2001 (a conservative assumption given recent declines in usage of SSBG for child care). Assuming that about $900 million was available for increased services, this could have meant that approximately 200,000 new children could have been served if average costs per child, adjusted for inflation, stayed constant.

reported in state CCDBG plans. The estimate is based on income and earnings data from three consecutive years of CPS reports from March 1998, 1999, and 2000, representing calendar years 1997 through 1999.

When states reported minimum work hour requirements in their state plans (12 states), those rules were applied in the TRIM3 model. In order to account for what HHS believes is an under-reporting of the number of states that actually have minimum hour requirements and to account for interactions between Head Start and pre-kindergarten usage and subsidized child care need, HHS removed from the denominator for the remaining states all children ages four and over in families in which the parent who works the least number of hours worked 20 hours or less a week in that month. Overall, the application of the minimum work hours provisions removed over 700,000 children from the denominator.

HHS divides the 2.7 million children it estimates will receive child care assistance in FY 2003 by the 8.95 million children eligible under state CCDBG eligibility rules to obtain its 30 percent estimate of the extent to which the need for child care assistance among these families is being met with CCDBG, TANF, and SSBG funds.

The following are several concerns related to the estimation of the 30 percent figure.

- **HHS estimates for FY 2003 focus on those children eligible under state rules. But, in determining what share of federally-eligible children are getting help, the focus ought to be on children eligible under federal law.** Federal law allows states to set their income eligibility limits up to 85 percent of SMI, but only a handful of states do so. This is a decision states make primarily due to lack of sufficient resources. By focusing on these smaller populations, HHS obscures the child care needs of millions of eligible children in low-income working families. While it may be of interest to know what share of children eligible under state rules are receiving assistance, such a figure provides no guidance about the extent of unmet need among federally-eligible children.

- **The 2.2 million children figure likely overestimates the level of future child care expenditures from CCDBG and transferred TANF funds.** In order for HHS to assume that the number of children receiving child care assistance will increase from 1.75 million to 2.2 million, HHS must assume that CCDBG expenditures will increase to a level that would support these increased numbers of children. In FY 2001, Congress appropriated an additional $817 million in CCDBG discretionary funds, and a scheduled increase of $200 million in federal matching funds was made available to states. Between FY 2000 and FY 2001, spending from CCDBG and transferred TANF dollars grew from $6.8 billion to $7.7 billion. There are strong indications, however, that this rate of growth cannot be sustained given economic conditions. First, in FY 2001, the number of states who did not draw down all of their CCDBG matching funds increased to

five.[16] Second, it seems highly unlikely that states will transfer the same amount of TANF funds in FY 2003 as they did in FY 2000, given that some states have recently pulled back approximately $100 million in TANF funds that had been committed previously to CCDBG in FY 2000 and that TANF transfers declined from $2.31 billion in FY 2000 to $1.99 billion in FY 2001.[17] Third, in FY 2001, states spent $2 billion more in total TANF funds than their annual block grants, a rate that cannot be sustained indefinitely, which further suggests that transfer amounts could decline.[18] Finally, in state FYs 2002 and 2003, the majority of states were cutting or changing their child care assistance programs, or considering doing so, due to fiscal distress in state budgets.[19]

- **The 500,000 children figure likely overestimates future levels of direct TANF and SSBG expenditures.** In calculating the 500,000 children figure, HHS assumes that states will serve the same number of children with direct TANF and SSBG funds in FY 2000 and FY 2003. This would presumably require either an increase in direct TANF and SSBG child care spending because of inflationary increases in child care expenditures or an assumption that states will reduce the amount they spend per child. It is not clear that either assumption is reasonable. Direct spending of TANF for child care in FY 2001 was $1.66 billion, only slightly above the FY 2000 level of $1.46 billion. Furthermore, as noted previously, it seems unlikely that states can sustain or increase the FY 2001 spending level in the future, given the evidence presented above that states are spending down their TANF reserves. Reductions in TANF spending will be even more likely if TANF funding levels are frozen and restrictive work requirements that add to state expenses are enacted. It also seems unlikely that the assumed per child expenditure for children whose care is funded directly by TANF or SSBG would decrease, given that, in its CCDBG estimate, HHS assumed an increasing per child expenditure.

- **HHS projections of numbers of children eligible under state rules are based on old data and inappropriately exclude many eligible children.** HHS is basing the numbers of CCDBG state-eligible children in FY 2003 on Census data about labor force participation from 1997 through 1999 and state eligibility rules from 1999 through 2000. Thus, HHS is assuming that the number of children

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[16] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *State Spending Under the Fiscal Year 2001 Appropriations for Child Care and Development Fund (CCDF) as of 9/30/2001* (August, 2002). The June 4, 2002 version of this analysis stated that seven states were not pulling down their full matching funds as of June 1, 2001, as reported by the Children's Defense Fund in Danielle Ewen, Helen Blank, Katherine Hart, and Karen Schulman, *State Developments in Child Care, Early Education and School-Age Care 2001* (Washington, DC: Children's Defense Fund, 2002). Recently released HHS data indicate that five states did not draw down their full matching funds as of September 30, 2001.

[17] CLASP, *States Have Slowed Their Use of TANF for Child Care in the Last Year.*

[18] Zoë Neuberger, *TANF Spending Increased in the Last Fiscal Year* (Washington, DC: Center on Budget and Policy Priorities, November, 2001), http://www.cbpp.org/11-1-01wel.htm.

[19] CDF, *Low-Income Families Bear the Burden of State Child Care Cutbacks.*

receiving child care assistance will increase while the numbers of children needing assistance will remain flat, without accounting for changes in the population of families needing assistance. Furthermore, the analysis excludes from the assessment of need over 700,000 otherwise eligible children between the ages of four and 12 whose parents work 20 hours per week or less, by assuming that such children are either ineligible under state rules or that the child care needs of these children would likely be addressed by Head Start, pre-kindergarten programs, or school. While some accounting for state rules might be necessary, this adjustment appears overbroad for the following reasons:

- The analysis does not consider the possibility that some states might only set minimum requirements on non-TANF families and not on TANF families. In particular, it seems doubtful that many states would deny child care assistance to TANF families working or participating for 20 hours a week, since that is the specified level at which single parents of children under age six count toward TANF participation rates.

- While all children in the 38 states that did not show up as having minimum hour requirements were removed from the denominator, HHS did not make a corresponding adjustment to remove such children from the numerator.

- Participation in Head Start and pre-kindergarten programs is not universal. Approximately three out of five eligible Head Start children are in the program, and only a handful of states have universal pre-kindergarten programs. Therefore, there are eligible four-year-olds who are not receiving these services.

- Even when a child is in Head Start, pre-kindergarten, or school for part of the day and the parent works part-time, the child might still need subsidized child care if the parent's work hours do not coincide with those of the program or school. Studies of families leaving welfare and other low-income parents found that at least one-quarter work non-traditional hours.[20]

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[20] Elise Richer, Steve Savner, and Mark Greenberg, *Frequently Asked Questions About Welfare Leavers* (Washington, DC: CLASP, November, 2001); AFL-CIO, *Ask a Working Woman 2000 Survey*, http://www/aflcio.org/women/survey1.htm; Harriet B. Presser and Amy G. Cox, "The Work Schedules of Low-Educated American Women and Welfare Reform," in *Monthly Labor Review* (April, 1997). All of the above cited in Jennifer Mezey, Rachel Schumacher, Mark H. Greenberg, Joan Lombardi, and John Hutchins, *Unfinished Agenda: Child Care for Low-Income Families Since 1996 – Implications for Federal and State Policy* (Washington, DC: CLASP, March 2002).

The HHS projection that 47 percent of children with income below the 1999 poverty threshold for a family of three will receive child care assistance in FY 2003 is likely overstated.

HHS also estimates the number of children in poverty who will be receiving child care assistance in FY 2003. HHS used the 2.7 million figure described above and applied assumptions about the percentage that were in poverty. HHS used unpublished FY 1999 CCDBG data on family income to determine how many of the 2.2 million children estimated to be served with CCDBG-funded subsidies lived in families with income below the 1999 poverty level for a family of three (approximately $1,157 per month). HHS did not have available administrative data to match incomes with family sizes because states did not start to report data on the family sizes of children served with CCDBG funds until a data element was added administratively in April 2002. Thus, HHS treated all families with incomes below $1,157 as a proxy for the number of families in poverty, although such families could be above or below the poverty line. (For example, a family of two with income of $1,156 would be counted as being in poverty even though family income exceeds the poverty threshold for two; however, a family of four with income of $1,158 would not be counted as being in poverty even though the family's income would be below the poverty threshold for four.)

Because there were no data to estimate the income levels of the estimated 500,000 children served with directly-spent TANF and SSBG funds, HHS assumed a similar income distribution for these children but assumed that a higher percentage of these children were in poverty.

HHS estimates that 3.44 million children in families with income below the 1999 poverty threshold for a family of three will be eligible under state eligibility rules in FY 2003. This figure was obtained through a TRIM3 analysis of income and earnings data from CPS data from March 1998, 1999, and 2000, representing calendar years 1997 through 1999. The TRIM3 analysis reported the number of children whose family income was below the 1999 poverty threshold for a family of three in 1999, the 1999 poverty threshold deflated to 1998 levels in 1998, and the 1999 poverty threshold deflated to 1997 levels in 1997; these three figures were then averaged to get the 3.44 million children figure. Although the TRIM3 model has the capacity to account for family size, the denominator does not account for family size in order to make it consistent with the numerator.

Although it is informative to see the number of children below poverty receiving child care assistance, this figure does not tell the story of the need for child care among low-income families. The intent of federal law is clearly not to reach just children in poverty. By focusing on this population, HHS obscures the child care needs of more than 10 million low-income children with working parents.

The 47 percent figure is also likely overstated, for three reasons. First, during the relevant period, states were asked to report as CCDBG income figures the amount of

income used in the CCDBG eligibility process. Thus, an undetermined number of states were likely reporting net income figures rather than gross income, meaning that actual family incomes were likely higher than the figures available from CCDBG data. Second, it is also likely that the TRIM3 analysis accounted for more family income than the administrative data. Third, while treating $1,157 as a rough proxy for income below poverty results in both overcounting and undercounting, the net effect is probably to overcount if (as in TANF) family size is more likely to be two than to be four or more.[21] Both of these factors suggest that the share of poor children who will be receiving child care assistance in FY 2003 is likely overstated by the HHS estimates.

Without new funding, problems of unmet needs will get worse.

The Administration has sought no new child care funding for the next five years, and its welfare proposal would exacerbate the current gap between need and enrollment by increasing TANF work requirements, thus further straining already tight child care resources in the states. CLASP has estimated that the Administration's proposal would result in $8 billion in new child care costs and $7 billion in new TANF costs over the next five years. In addition, CLASP estimated that if the Administration is accurately estimating the total amount of funding available for child care in FY 2002, then $4.2 billion would be necessary to address the effects of inflation and maintain that level of resources over the next five years.[22] The Congressional Budget Office (CBO), analyzing the House Republican leadership bill, which is similar but not identical to the Administration's proposal, estimated five-year costs of $5 billion in child care and $6 billion in TANF costs for a 40-hour work requirement.[23] The estimated five-year child care and TANF work costs of the Senate Finance Committee's work proposal is $290 million.[24] CBO also estimated that the Senate Finance Committee would have to appropriate an additional $4.55 billion cost over five years for states to maintain the current level of child care services they provide to low-income families.[25]

The bill that ultimately passed the House provides only $1 billion in additional guaranteed (mandatory) child care funding for the next five years with an associated state spending increase of approximately $800 million. The bill also *authorizes* up to $3 billion in discretionary funding, but this is merely an authorization, not an assurance or even a commitment to provide even a dollar of additional discretionary funding.[26]

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[21] As noted, family size information is not able for CCDBG families, but in TANF, 44 percent of families have only one child, while 25 percent have three or more children.

[22] See Mark Greenberg, Elise Richer, Jennifer Mezey, Steve Savner, and Rachel Schumacher, *At What Price?: A Cost Analysis of the Administration's Temporary Assistance for Needy Families (TANF) Work Participation Proposal* (Washington, DC: CLASP, Revised April 15, 2002), www.clasp.org.

[23] Congressional Budget Office, *Preliminary CBO Estimate of the Costs of Meeting the Work Participation Requirements of H.R. 4090 (as reported by the Subcommittee on Human Resources)* (May 2002).

[24] Congressional Budget Office, *Preliminary Staff Estimate, Child Care Cost Summary Table* (July 13, 2002).

[25] This figure does not include any effects of inflation on CCDBG discretionary spending.

[26] House committee staff members have indicated that the discretionary increase included in the legislation passed by the House was intended to authorize only an additional $1 billion increase in discretionary

Accordingly, the House bill provides a small fraction of what would be needed to meet the new work requirements, and does not approach what would be needed to keep pace with inflation or to address the vast deficit between the number of eligible children and the numbers actually receiving child care assistance.

The Senate Finance Committee's bill provides $5.5 billion in additional mandatory child care funding with an associated state spending increase of approximately $400 million.[27] In addition, legislation reported out of the Health, Education, Labor, and Pensions Committee on September 4, 2002, would increase CCDBG discretionary funding authorization levels (which, again, does not guarantee actual funding increases) and require states to invest additional dollars in efforts to increase the supply and improve the quality of child care for low-income families.

As we await further congressional action on CCDBG and TANF reauthorization legislation, it is important to appreciate that the increases in child care funding since 1996 have resulted in a significant increase in the numbers of children receiving care, but that there are still large unmet needs due at least in part to the increased labor force participation of low-income mothers over the past five years; in addition to addressing the cost of welfare-work requirements, CCDBG and TANF reauthorizations provide an important opportunity to address those needs.

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funding over the next five years; staff cite a requirement that discretionary authorizations build in baseline increases from year to year.

[27] For additional information comparing the Senate Finance and House legislation, see Sharon Parrott, Shawn Fremstad, Mark Greenberg, Steve Savner, Vicki Turetsky, and Jennifer Mezey, *One Step Forward or Two Steps Back? Why the Bipartisan Senate Finance Bill Reflects a Better Approach to TANF Reauthorization than the House Bill* (Washington, DC: Center on Budget and Policy Priorities and CLASP, 2002).

CLASP

CENTER FOR LAW AND SOCIAL POLICY

The House Welfare Bill (H.R. 4) Does Not Provide Enough Child Care Funding to Meet Work Requirements Without Forcing States to Restrict Access to Subsidies for Other Low-Income Families

By Jennifer Mezey

February 12, 2003

This week, the House will vote on a welfare reauthorization bill (H.R. 4) that includes a $1 billion increase over five years in federal mandatory child care funds (as well as an increase in discretionary authorization levels) and significant new welfare work requirements. This funding increase is not sufficient to allow states to meet these new work requirements, to maintain their current levels of services against inflation, or to make up for decreased child care resources caused by strains on Temporary Assistance for Needy Families (TANF) funds and by state fiscal crises.[1]

- **Child care is an essential component of welfare reform, but most low-income families with children do not receive child care assistance.** Child care helps low-income parents obtain and keep their jobs. High-quality child care can also support the healthy social and emotional development of young children. Despite these benefits, only one out of seven children who are eligible for child care assistance under federal rules receives this assistance due to funding limitations.[2]

- **The House reauthorization bill does not provide enough child care funding for states to meet work requirements without terminating services for children who are currently receiving child care assistance.** Last year, the Congressional Budget Office (CBO) estimated that it would cost states an additional $8.4-$11 billion over five years to meet the House legislation's work requirements—with child care costs accounting for $3.8-$4.8 billion. CBO also estimated an *additional* five-year cost of

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[1] This paper draws from Parrott, S., & Mezey, J. (February 2003). *Bush Administration Projects that the Number of Children Receiving Child Care Subsidies Will Fall By 200,000 During the Next Year—Actual Loss in Child Care Subsidies Likely Would Be Far Greater*. Washington, DC: Center on Budget and Policy Priorities and Center for Law and Social Policy. Available at: http://www.clasp.org/DMS/Documents/1044476809.2/doc_child_care_budget.pdf

[2] Mezey, J., Greenberg, M., & Schumacher, R. (October 2002). *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000: Increased Child Care Funding Needed to Help More Families*. Washington, DC: Center for Law and Social Policy. Available at: http://www.clasp.org/DMS/Documents/1024427382.81/1in7full.pdf

$4.5-$5 billion above the amount needed to meet work requirements for states to maintain their current level of services against inflation.

The House legislation increases federal mandatory child care funding by $1 billion over five years, with a required associated increase in state spending of approximately $785 million. The legislation also would increase the *authorization* levels for discretionary child care funding. However, Congress would have to appropriate funding for this increase, which seems very unlikely in the current budget climate. In fact, the FY 2003 appropriations bill passed by the Senate would, if enacted, impose a 2.9 percent across-the-board reduction in funding for most discretionary programs, including the discretionary portion of the Child Care and Development Block Grant (CCDBG).

Thus, the House bill's child care funding increase does not come close to meeting either the cost of keeping pace with inflation or the bill's new work requirements. Furthermore, all of the new mandatory federal funding requires increased state spending to draw it down. State groups claim that current economic conditions in the states might make it difficult to increase state spending to access all of these funds, particularly in the early years of implementation. Given all of these facts, states will likely have to terminate services to low-income children who are not receiving cash assistance in order to fund the costs of the proposed work requirements.

- **The House reauthorization bill's proposed welfare work requirements will add to the pressure on states to reduce their TANF investments in child care.** Between FY 2000 and FY 2001, state TANF reserves dropped by $2 billion dollars, as state welfare expenditures exceeded the amount of annual block grants.[3] Furthermore, many states are facing increased TANF caseloads, which could cause redirections of TANF funds from child care programs to cash assistance.[4] Finally, the House legislation does not increase funding for the TANF block grant. This means that states will likely have to redirect at least some of the TANF funds that are currently being used for child care and other supportive services towards increased work program costs.

- **The House reauthorization bill's proposed child care funding increase does not address the current state fiscal crisis, which will likely reduce current levels of state child care resources.** The current state fiscal crisis has led states to make deep cuts in a variety of state services, including child care programs. States will need to find budget cuts or increase revenues to close an aggregate budget gap that is projected to be between $70 billion and $85 billion in FY 2004. This comes on top of a budget gap in FY 2003 that was estimated at more than $60 billion across all states.[5]

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[3] Neuberger, Z. (October 2002). *Annual TANF Expenditures Remain $2 Billion Above Block Grant.* Washington, DC: Center on Budget and Policy Priorities.

[4] Richer, E., Rahmanou, H., & Greenberg, M. (December 2002). *Welfare Caseloads Increased in Most States in Third Quarter, National Caseload Also Up.* Washington, DC: Center for Law and Social Policy.

[5] Lav, I.J., & Johnson, N. (January 2003). *State Budget Deficits for FY 2004 are Huge and Growing.* Washington, DC: Center on Budget and Policy Priorities.

- **Strains on TANF funding and state revenues have already led to child care cuts.** According to data from the Center on Budget and Policy Priorities, Indiana, Kansas, Nebraska, New Mexico, and West Virginia have reduced income eligibility limits in their child care programs. Some states have reduced their payments to providers and others have increased the co-payment requirements for families receiving subsidies. As states put their FY 2004 budgets together, more cuts are being proposed. For example, Governor Taft of Ohio has proposed reducing the eligibility limit for child care subsidies in order to cut the number of children served by 17,000.[6]

[6] For additional information on child care budget cuts and proposed cuts, see Children's Defense Fund. (September 2002). *Low-Income Families Bear the Burden of State Child Care Cutbacks*. Washington, DC: Author.

Center for Law and Social Policy
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CENTER ON BUDGET AND POLICY PRIORITIES

February 5, 2003

BUSH ADMINISTRATION PROJECTS THAT THE NUMBER OF CHILDREN RECEIVING CHILD CARE SUBSIDIES WILL FALL BY 200,000 DURING THE NEXT FIVE YEARS

Actual Loss in Child Care Subsidies Likely Would Be Far Greater

By Sharon Parrott and Jennifer Mezey[1]

A table in the Bush Administration budget shows that under the Administration's child care block grant funding proposals, the number of children who will receive child care subsidies is projected to *fall* by 200,000, from 2.5 million children currently to 2.3 million children by 2007.[2]

This decline is the result of the Administration's proposal to freeze various sources of federal child care funding over the next five years, including the Child Care and Development Block Grant, the Temporary Assistance for Needy Families (TANF) block grant (a substantial portion of which is used for child care), and the Social Services Block Grant.[3] Because the cost of providing child care increases as the wages, salaries, and rental costs of child care programs rise with inflation, freezing child care funding causes the number of children who can be served each year to decline.

Currently, due to funding limitations, only *one in every seven* children who are eligible for child care assistance under federal rules actually receive that help. Millions of low-income working families with children that need assistance paying for child care do not get it because of insufficient funding for child care programs.[4]

This gap would grow under the Administration's budget. In fact, the number of children under the age of five in the United States is projected to *increase* by 3 percent over the same period that the number of children who could be served by child care programs is projected to fall by 200,000.

Furthermore, the 200,000 figure is likely to *understate* by a substantial amount the decline that would occur under the budget in the number of children who receive child care subsidies, because the Administration's projections are based on overly optimistic assumptions about the level of both state resources and federal TANF resources that states will devote to child care over the next five years.

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[1] Sharon Parrott is from the Center on Budget and Policy Priorities and Jennifer Mezey is from the Center for Law and Social Policy.

[2] *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2004*, Table 15-3, "Beneficiary Projections for Major Benefits Programs."

[3] Additionally, for FY 2004, the Administration has proposed a $400 million cut in the 21st Century Community Learning Centers program which provides funding for after-school activities.

[4] Jennifer Mezey, Mark Greenberg, and Rachel Schumacher, *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000: Increased Child Care Funding Needed to Help More Families*, Center for Law and Social Policy, October 2002.

- *The Administration assumes that between 2004 and 2008, states will continue to devote the same level of TANF funds to child care as they used for child care in FY 2001; this is very unlikely to occur.* In 2001, states relied on some $1.6 billion in unspent TANF funds from prior years to augment their annual TANF block grant allotments and fund programs and services for low-income families, including child care assistance. These unspent TANF funds, however, have since been exhausted or nearly exhausted in most states. To bring spending in line with their annual TANF block grant allotment, many states will have to *cut* TANF funding for various programs in the next few years, including child care programs. In addition, some states are facing increased costs for basic cash assistance for poor families because the number of families needing this assistance has increased. These rising cash assistance costs are increasing pressure on states to reduce the amount of TANF funds devoted to cut child care and other supports for low-income working families.

- ***State** spending on child care also is likely to fall in a number of states, but the Administration's projection assumes that states will continue to fund child care programs at FY 2001 levels.* The severe fiscal crisis now facing states is leading them to make substantial cuts in a range of state services, including child care.

- *TANF budget pressures and state revenue shortfalls already have led a number of states to cut child care programs and consider further cuts for FY 2004.* For example, Indiana, Kansas, Nebraska, New Mexico, and West Virginia reduced eligibility limits in their child care programs to cut program costs. States also have made cuts in the amount they pay child care providers and have increased the co-payments that families receiving subsidies must make. Several states are considering cuts in child care programs as they craft their FY 2004 budgets. Governor Taft of Ohio, for example, has proposed reducing the eligibility limit for child care subsidies in order to cut the number of children served by 17,000.

If states withdraw state resources or federal TANF funds from child care programs, the reduction in the number of children who will receive child care subsidies by 2008 will be significantly larger than the 200,000 reduction projected by the Administration.

Finally, it is important to note that the if the Administration's TANF reauthorization proposals are enacted, many states likely will reduce the number of low-income *working* families that receive child care assistance in order to devote more resources to meeting the new work requirements in the Administration's proposal. The President has called once again for the enactment of a welfare plan that would require states to increase substantially the number of cash assistance recipients participating in work programs and would raise the number of hours parents are required to participate to 40 hours per week. Last year, the Congressional Budget Office estimated that the cost of meeting the work requirements included in the House-passed TANF reauthorization bill — requirements modeled on the Administration's work proposals — would be between $8 billion and $11 billion over five years. (These costs included costs associated with expanding welfare-to-work programs as well as the cost of providing child care to parents participating in these programs.)

To meet these new mandates, many states likely would cut funding for child care subsidies for low-income working families *not* receiving cash assistance in order to provide child care subsidies to cash assistance recipients newly required to work or required to work more hours as well as to fund the increased work program costs associated with these new requirements. Thus, even if the *total* reduction in the number of children receiving child care subsidies were 200,000 as projected by the Administration, more than 200,000 children in low-income working families not receiving welfare benefits would be expected to lose access to child care assistance if the Administration's TANF proposals are adopted.

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